

Message Text

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FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 3129
INFO USLO PEKING
AMEMBASSY TOKYO
AMEMBASSY TAIPEI
AMEMBASSY SINGAPORE
AMEMBASSY PARIS
AMEMBASSY LONDIN
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1. INTRODUCTION AND SUMMARY: AS PART OF A GENERAL FRAMEWORK
FOR ANALYZING THE EFFORTS OF CHINA'S POST-MAO
LEADERSHIP TO CONSOLIDATE POWER (REF A), WE HAVE
CONSIDERED THE QUESTIONS OF LEGITIMIZING THE HUA
REGIME AND WHAT CONSTRAINTS IT FACES (REFS B AND C).
THIS MESSAGE PRESENTS OUR VIEWS ON THE HUA REGIME'S
PORBABLE APPROACH TO INTERNATIONAL TRADE AND MEDIUM
TERM POSPECTS FOR CHINA'S TRADE, PARTICULARLY AS THESE
CONCERN THE UNITED STATES.

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2. MODERNIZATION OF CHINA'S ECONOMY WILL REQUIRE CONTINUED
IMPORTATION AND USE OF FOREIGN TECHNOLOGY. WHILE
CHINA'S IMPORT PROGRAM WILL REMAIN SELECTIVE, PARTICULARLY
WITH REGARD TO WHOLE PLANT IMPORTS, IT IS EXPECTED TO
GROW SUBSTANTIALLY DURING THE LATTER PART OF THE DECADE.

GIVEN NORMAL HARVESTS AND A HEALTHY WORLD ECONOMY, CHINA SHOULD NOT HAVE GREAT DIFFICULTY IN FINANCING SUCH AN IMPORT PROGRAM. CHINA WILL INCREASINGLY PROMOTE EXPORTS OF MANUFACTURED ITEMS, BUT TRADITIONAL AGRICULTURAL AND RAW MATERIAL EXPORTS WILL REMAIN IMPORTANT FOREIGN EXCHANGE EARNERS. IN THE ABSENCE OF DIPLOMATIC RELATIONS AND FMN, SINO-US TRADE WILL PROBABLY GROW MODERATELY BUT NOT AS FAST AS CHINA'S OVERALL TRADE.

3. PROSPECTS FOR ENHANCED PRC TRADE ACTIVITY ARE GOUNDED NOT ONLY IN DOMESTIC ECONOMIC IMPERATIVES, BUT ALSO IN THE MAKEUP OF DOMESTIC INTEREST GROUPS THAT SUPPORTED HUA ASCENSION. ALL OF THESE GROUPS SUPPORT THE GOALS TO MODERNIZE CHINA'S AGRICULTURAL, INDUSTRY, DEFENSE, AND SCIENCE AND TECHNOLOGY BY THE END OF THE CENTURY, SET FORTH BY CHOU EN-LAI, IN JANUARY 1975. IN PARTICULAR SENIOR MILITARY FIGURES WHO PLAYED A KEY ROLE IN THE SUCCESSION STRUGGLE, ARE BELIEVED TO CONSIDER MODERNIZATION THE SINE QUA NON FOR MEETING CHINA'S NATIONAL DEFENSE REQUIREMENTS. END INTRODUCTION AND SUMMARY.

4. GREAT STRIDES BEING MADE IN INDUSTRIAL DEVELOPMENT, AND PARTICULARLY THE BRINGING ON STREAM OF COMPLETE PLANTS IMPORTED IN 1973-75, WILL CHANGE THE COMMODITY COMPOSITION OF CHINA'S TRADE IN THE 1970'S HAVING OBTAINED SHORT-TERM SELF-SUFFICIENCY IN CERTAIN INDUSTRIAL RAW MATERIALS OR IMPORT SUBSTITUTES, CHINA'S IMPORTS WILL BE INCREASINGLY MADE UP OF "FINISHED" CAPITAL GOODS SUCH AS MACHINERY AND WHOLE PLANTS. EXPORTS LIMITED OFFICIAL USE

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OF MANUFACTURED ITEMS, PARTICULARLY LIGHT MANUFACTURES AND NEW CONSUMER GOODS, SUCH AS ELECTRICAL DEVICES, WILL SHOW THE GREATEST RELATIVE GROWTH. HOWEVER CHINA WILL ALSO CONTINUE TO RELY UPON TRADITIONAL AGRICULTURAL AND CERTAIN RAW MATERIALS TO EXPORTS TO PROVIDE AN IMPORTANT SHARE OF FOREIGN EXCHANGE EARNINGS.

5. CHINA'S DEVELOPMENT PLANS REQUIRE CONTINUED IMPORTATION OF WHOLE PLANTS, ENGINEERING PROTOTYPES AND TECHNOLOGICALLY ADVANCED EQUIPMENT. THE WHOLE PLANT IMPORT PROGRAM IS LIKELY TO REMAIN QUITE SELECTIVE, AIMING NARROWLY AT CERTAIN KEY OR PROBLEM SECTORS OF THE ECONOMY. CONTRACTS FOR A NEW WAVE OF IMPORTED WHOLE PLANTS ARE LIKELY TO BE SIGNED AFTER 1977; SUCH PLANTS WILL BE SCHEDULED TO BEGIN PRODUCTION DURING THE 6TH FIVE YEAR PLAN PERIOD (1980-85).

6. CHINA IS EXPECTED TO RELY MORE HEAVILY THAN IN THE PAST ON IMPORTS OF ENGINEERING PROTOTYPES (TECHNOLOGY TRANSFERS) AND IMPORTATION AND USE OF ADVANCED EQUIPMENT. IMPORTS OF THE LATTER SHOULD INCREASE MARKEDLY AS CHINA STRIVES TO MODERNIZE PETROLEUM PRODUCTION AND REFINING, MINING, TRANSPORT TELECOMMUNICATIONS AND OTHER BASIC INDUSTRIES. A STEPPED UP RATE OF EQUIPMENT IMPORTS MAY BECOME NOTICABLE BY LATE 1977.

7. GIVEN "NORMAL" HARVEST AND A HEALTHY WORLD ECONOMY, CHINA SHOULD NOT HAVE GREAT DIFFICULTY FINANCING HER SELECTIVE BUT GROWING IMPORT PROGRAM. ASSUMING THAT AGRICULTURAL OUTPUT KEEPS AHEAD OF POPULATION GROWTH, CHINA WILL PROBABLY NOT HAVE TO EXPEND LARGE AMOUNTS OF FOREIGN EXCHANGE ON FOODGRAINS IMPORTS AS WAS THE CASE IN 1974. RATHER, MORE AGRICULTURAL PRODUCE SHOULD BE AVAILABLE FOR EXPORT.

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8. EXPORT EARNING SHOULD GROW STEADILY AFTER 1977. OIL EXPORT RECEIPTS ALONE SHOULD RISE TO SOME \$2 BILLION ANNUALLY BY 1979-80 (WE ASSUME THAT OIL EXPORTS WILL REMAIN BELOW THE 20-25 MILLION TON LEVEL THROUGHOUT THE DECADE). INVISIBLE EARNING FROM SUCH SOURCES AS OVERSEAS (FAMILY AND PRC ENTERPRISE) REMITTANCES, A GREATLY EXPANDED MERCHANT MARINE AND SMALL SCALE TOURISM SHOULD SHOW STEADY INCREASES.

9. PEKING IS EXPECTED TO CONTINUE PAST PRACTICE OF ACCEPTING MEDIUM TERM (FIVE-YEAR) SUPPLIES' CREDITS TO FINANCE WHOLE PLANT IMPORTS; BUT NO RESORT TO LONG-TERM BORROWING IS EXPECTED. WE BELIEVE THAT WHOLE PLANT PURCHASES IN EXCESS OF \$1 BILLION WILL BE POSSIBLE DURING 1978-79.

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10. IN THE ABSENCE OF DIPLOMATIC RELATIONS AND MFN, SINO-US TRADE WILL PROBABLY NOT GROW AS FAST AS CHINA' OVERALL TRADE SINCE CHINA CAN BE EXPECTED TO CONTINUE DISCRIMINATING AGAINST THE US IN AREAS WHERE ALTERNATIVE SOURCES OF SUPPLY ARE AVAILABLE. HOWEVER, THE CLEAR SUPERIORITY OF US PRODUCTS IN SOME FIELDS WILL CONTINUE TO ENSURE SALES TO CHINA. MOREOVER, CHINA IS UNLIKELY TO LET BUSINESS FALL BELOW A LEVEL NEEDED TO KEEP US BUSINESSMEN INTERESTED IN THE CHINA MARKET. AND THEREBY TO KEEP SOME PRESSURE ON THE US TO NORMALIZE RELATIONS. THUS, WE WOULD EXPECT US EXPORTS TO INCREASE MODERATELY BUT STEADILY OVER THIS YEAR'S LOW LEVEL.

11. PEKING SHOULD CONTINUE TO PROMOTE EXPORTS TO THE US. SALES OF SOME IMPORTANT PRODUCTS WILL SUFFER LIMITED OFFICIAL USE

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AS A RESULT OF RESTRICTIVE US REGULATIONS OTHERS MAY BE AFFECTED TO SOME DEGREE BY THE ABSENCE OF MFN. THE OBSTACLE TO A MAJOR EXPANSION OF CHINESE EXPORTS TO THE US, HOWEVER, IS STILL THE LACK OF A SUFFICIENT RANGE OF PRODUCTS WITH MARKET POTENTIAL. NEVERTHELESS CHINA'S EXPORTS SHOULD GROW STEADILY, IF MODERATELY.

12. FUTURE DIPLOMATIC RECOGNITION ALONE IS UNLIKELY TO BRING ABOUT SUBSTANTIAL CHANGE IN THE PICTURE OF STEADY BUT MODERATE TRADE GROWTH DESCRIBED ABOVE. PROVISIONS OF MFN IS MORE LIKELY TO PRODUCE POSITIVE CHANGE, ALTHOUGH THE MAGNITUDE OF CHANGE IS DIFFICULT TO PREDICT. ACCORDING MFN TREATMENT OF CHINA'S EXPORTS

WILL PROBABLY INCREASE CHINA EARNINGS AND THUS SERVE AS AN INCENTIVE TO INCREASED EXPORTS. INCREASED EARNINGS AND THE END OF DISCREMINATORY TREATMENT ARE LIKELY TO ECOURAGE CHINA TO BUY MORE US PRODUCTS THAN WOULD OTHERWISE BE THE CASE.

13. THE SUBSTANTIAL INCREASE IN TRADE IN PROSPECT DURING THE LATTER PART OF THE DECADE WILL NOT NECESSARILY CAUSE CHINA' OVERALL ECONOMY TO BECOME MUCH MORE TRADE ORIENTED THAN IS PRESENTLY THE CASE. WE DOUBT CHINESE PLANNERS ENVISAGE TURNING CHINA INTO A "MAJOR" TRADING NATION. CHINA'S TRADE PROGRAM HAS A CLEAR, IF LONG-TERM, IMPORT SUBSTITUTION OBJECTIVE.

14. CONTINUED IMPORTATION OF FOREIGN PLANTS AND

TECHNOLOGY AND THE SYSTEMATIC EXPANSION OF EXPORTS WILL REQUIRE SIGNIFICANTLY INCREASED CHINESE CONTACT AND COOPERATION WITH THE WESTERN WORLD. THE EXTENT TO WHICH THIS WILL INFLUENCE CHINESE FOREIGN POLICIES IS UNCERTAIN. PROBABLY MORE SIGNIFICANT OF WESTERNERS INTREST WILL BE THE ACCELERATED ECONOMIC DEVELOPMENT OF CHINA AS A PARTIAL RESULT OF TECHNOLOGY IMPORTS. LIMITED OFFICIAL USE

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15. A MORE DETAILED ANALYSIS OF CHINA'S TRADE PROSPECTS 1977-80 IS BEING TRANSMITTED IN HONG KONG A-202. CROSS

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